COACHMAN INSURANCE COMPANY

Annual Report
2013

RESPONSIBILITY FOR FINANCIAL STATEMENTS

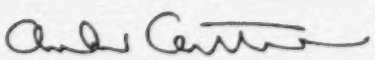
The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

PricewaterhouseCoopers have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.



Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 27, 2014

ACTUARY'S REPORT

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities and reinsurance recoverables of Coachman Insurance Company for its statement of financial position at December 31, 2013, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 27, 2014

INDEPENDENT AUDITOR'S REPORT

February 27, 2014

To the Shareholder of Coachman Insurance Company

We have audited the accompanying financial statements of Coachman Insurance Company (the Company), which comprise the statement of financial position as at December 31, 2013 and the statements of operations, changes in shareholder's equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Company for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on February 14, 2013.

PricewaterhouseCoopers LLP

Chartered Accountants

STATEMENT OF FINANCIAL POSITION

	December 31 2013	December 31 2012
Assets	(thousands of $)	
Cash and cash equivalents (note 4)	$ 6,715	$ 1,953
Accounts receivable (note 5)	26,803	29,576
Investments under security lending program (note 6)	30,540	17,920
Investments (note 6)	106,743	119,280
Reinsurers' share of unearned premiums (note 9)	1,092	1,134
Unpaid claims recoverable from reinsurers (note 7)	35,370	35,104
Deferred policy acquisition costs (note 8)	5,780	5,767
Property and equipment	445	-
Deferred income tax asset (note 12)	1,609	3,176
	$ 215,097	$ 213,910
Liabilities		
Accounts payable and accrued liabilities	$ 4,910	$ 6,459
Amounts due to reinsurers	792	1,141
Unearned reinsurance commissions	268	274
Unearned premiums (note 9)	29,530	31,528
Provision for unpaid claims (note 7)	122,939	120,549
Deferred income tax liability (note 12)	510	541
	158,949	160,492
Shareholder's equity		
Share capital (note 10)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	24,548	21,818
Total equity	**56,148**	53,418
	$ 215,097	$ 213,910

Contingencies (note 19)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors and signed on their behalf on February 27, 2014

Arlene Wiks
Director

Howard Crofts
Director

STATEMENT OF OPERATIONS

For the years ended December 31	2013	2012
	(thousands of $)	
Gross premiums written	$ 57,449	$ 62,075
Premiums ceded to reinsurers	(6,526)	(6,360)
Net premiums written	50,923	55,715
Change in net unearned premiums (note 9)	1,956	3,165
Net premiums earned	**52,879**	58,880
Net claims incurred (note 7)	30,194	36,707
Commissions	9,649	9,070
Administrative expenses	3,801	4,362
Premium taxes	1,805	1,983
Facility Association participation (note 18)	(39)	554
Total claims and expenses	**45,410**	52,676
Underwriting profit	**7,469**	6,204
Investment earnings (note 11)	9,736	6,202
Income before income taxes	**17,205**	12,406
Income taxes (note 12)	4,475	3,152
Net income and comprehensive income	**$ 12,730**	$ 9,254

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the years ended December 31	2013	2012
	(thousands of $)	
Share capital		
Balance, end of year	**$ 1,000**	$ 1,000
Contributed surplus		
Balance, end of year	**$ 30,600**	$ 30,600
Retained earnings		
Balance, beginning of year	$ 21,818	$ 12,564
Net income and comprehensive income	12,730	9,254
Dividends	(10,000)	-
Balance, end of year	**$ 24,548**	$ 21,818
Total shareholder's equity	**$ 56,148**	$ 53,418

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the years ended December 31	2013	2012
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income and comprehensive income	$ 12,730	$ 9,254
Non-cash items:		
Bond amortization	624	653
Depreciation	3	-
Net unrealized gain on change in market value of investments	(3,616)	(1,187)
Net realized gain on sale of investments	(1,046)	(431)
Deferred income taxes	1,536	(621)
Change in non-cash operating items (note 15)	1,024	9,628
	11,255	17,296
Investing activities		
Purchases of investments	(235,427)	(146,316)
Proceeds on sale of investments	239,382	124,567
Purchases of property and equipment	(448)	-
	3,507	(21,749)
Financing activities		
Dividends paid	**(10,000)**	-
Increase (Decrease) in cash and cash equivalents	**4,762**	(4,453)
Cash and cash equivalents, beginning of year	1,953	6,406
Cash and cash equivalents, end of year	**$ 6,715**	$ 1,953
Supplemental cash flow information:		
Interest received	$ 2,722	$ 2,778
Income taxes paid	$ 3,781	$ 2,278

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. STATUS OF THE CORPORATION

Coachman Insurance Company was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' license under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario. The address of the Corporation's registered office is Suite 200, 10 Four Seasons Place, Etobicoke, Ontario, Canada.

The Corporation's automobile insurance premium rates are regulated by Financial Services Commission of Ontario (FSCO). Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 78% (2012 - 80%) of the Corporation's net premiums earned.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements for the year-ended December 31, 2013, have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises as set out in Part 1 of the CPA Canada Handbook. Part 1 of the CPA Canada Handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of measurement

The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification

The Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current), presented in the notes.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7) and income taxes (note 12).

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity or loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any.Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the statement of operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. The pooled equity funds are measured at fair value and classified as Level 1. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments, bonds and debentures, and the pooled mortgage fund. Fair value for the short-term investments and bonds and debentures is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets. Fair value for the pooled mortgage fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages, subject to adjustments for liquidity and credit risk.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flows methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. The Corporation has no financial assets or liabilities considered level 3.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates.Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

During the year, no financial instruments were transferred between levels.

Investments

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held at the year-end date.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written and are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of the policy premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes.Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Leasehold improvements	5 years
Other equipment	5 years

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claims adjudication, the Corporation settles certain long-term claims losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of the purchase and the related claims liabilities are derecognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfill their obligations.

Adoption of new and amended accounting standards

IFRS 7 – Financial instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional disclosures related to netting arrangements, including rights to off-set associated with an entity's financial assets and financial liabilities. These disclosures are intended to help financial statement users evaluate the impact or potential impacts of these arrangements on an entity's financial position. The Corporation has adopted this amendment on January 1, 2013 and has determined that these additional disclosures do not impact the financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013, however the definition of fair value has been updated.

IAS 1 – Presentation of Financial Statements

IAS 1 was amended in 2011 to require net income and OCI to be presented together either as a single statement of comprehensive income or separate income statement and statement of comprehensive income. The amendment also requires presentation of OCI to segregate comprehensive income items reclassified to net income and the comprehensive income items not reclassified to net income. The Corporation has adopted the amendments to IAS 1 effective January 1, 2013 and has determined that these additional disclosures do not impact the financial statements.

Annual Improvements 2009-2011 Cycle

Annual improvements 2009-2011 Cycle was issued in May 2012 by the IASB, and included minor amendments to five IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The Corporation has adopted Annual Improvements 2009-2011 Cycle on January 1, 2013 and has determined that there is no impact to the financial statements.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on the accounting for insurance contracts which builds on the previous consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. A final standard is expected in 2015 with implementation not expected before 2018.

IFRS 9 - Financial Instruments

In November 2009, the IASB issued an exposure draft of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

In November 2012, the IASB issued limited amendments to the exposure draft. The amendments include introduction of a fair value through other comprehensive income (FVOCI) measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

In July 2013, the mandatory effective date for this standard was deferred and is pending the finalization of the impairment and classification and measurement requirements. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The Corporation is in the process of assessing the impact of the new standard.

IAS 36 – Impairment of Assets - Recoverable Amounts Disclosures for Non-Financial Assets

In May 2013, the IASB issued limited scope amendments to IAS 36. The amendment clarified the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendment requires an entity to disclose the discount rate used in a present value technique that has been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Corporation does not expect these amendments to impact the financial statements.

Annual Improvements Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010-2012 and 2011-2013, which include minor amendments to a number of IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. The Corporation is in the process of assessing the impact of the amendments.

4. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2013	2012
Money market investments	$ 6,345	$ 1,308
Cash on hand, net of outstanding cheques	370	645
Total cash and cash equivalents	$ 6,715	$ 1,953

The average effective interest rate on money market investments is 1.1% (2012 - 1.1%).

5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2013	2012
Due from insureds	$ 22,465	$ 23,944
Facility Association (note 18)	1,582	1,553
Due from reinsurers	951	1,468
Income taxes receivable	813	-
Accrued investment income	568	523
Due from SGI CANADA (note 17)	211	2,259
Due from brokers	155	163
Other	389	173
	27,134	30,083
Less: Allowance for doubtful accounts (note 13)	(331)	(507)
Total accounts receivable	$ 26,803	$ 29,576

Included in due from insureds is $19,965,000 (2012 - $21,246,000) of financed premiums receivable, which represents the portion of the policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings using the effective interest method.The effective interest rate is 8.0% (2012 - 8.0%).

All accounts receivable are current.

6. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2013	2012
Short-term investments	$ 15,672	$ 21,446
Bonds and debentures	53,538	75,397
Pooled funds:		
Canadian equity	8,929	10,395
United States equity	9,248	6,000
Non-North American equity	7,623	6,042
Mortgage	11,733	-
	106,743	119,280
Investments under securities lending program		
Bonds and debentures	30,540	17,920
Total investments	$ 137,283	$ 137,200

Details of significant terms and conditions, exposures to interest rate, credit risks of investments and counter party risks are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.0% (2012 - 1.0%) and an average remaining term to maturity of 66 days (2012 - 78 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(thousands of $)

Term to maturity (years)	2013 Carrying Value	2013 Average Effective Rates	2012 Carrying Value	2012 Average Effective Rates
Government of Canada:				
One or less	$ -	-	$ 6,766	1.1%
After one through five	26,525	1.8%	32,723	1.4%
Canadian provincial & municipal:				
One or less	1,031	1.2%	1,140	1.3%
After one through five	16,233	1.8%	19,214	1.6%
Canadian corporate:				
One or less	4,462	2.2%	-	-
After one through five	35,827	2.0%	29,776	2.0%
After five	-	-	3,698	3.7%
Total bonds and debentures	$ 84,078		$ 93,317	

Investments with a carrying value of $53,000 (2012 - $53,000) are held in trust as required by regulatory authorities.

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund.These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities, or if the collateral is liquidated, it may be for less than the value of the loan.The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2013, the Corporation held collateral of $32,067,000 (2012 - $18,816,000) for the loaned securities.

7. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Net claims incurred

(thousands of $)

	2013 Current year	2013 Prior years	2013 Total	2012 Current year	2012 Prior years	2012 Total
Gross claims incurred	$ 45,783	$ (8,301)	$ 37,482	$ 44,704	$ 1,711	$ 46,415
Ceded claims incurred	(8,939)	1,651	(7,288)	(5,093)	(4,615)	(9,708)
Net claims incurred	$ 36,844	$ (6,650)	$ 30,194	$ 39,611	$ (2,904)	$ 36,707

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable cost of those claims transferred to the Corporation's various reinsurers pursuant to reinsurance contracts (note 13).

Net provision for unpaid claims

	(thousands of $)	
	2013	2012
Net unpaid claims, beginning of year - discounted	$ 85,445	$ 73,294
PFAD and discount, beginning of the year	(6,332)	(4,802)
Net unpaid claims, beginning of year - undiscounted	79,113	68,492
Payments made during the year relating to:		
Prior year claims	(15,723)	(13,607)
Prior year Facility Association claims	(376)	(362)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(6,650)	(2,904)
Prior year estimated unpaid Facility Association claims	(297)	29
Net unpaid for claims of prior years - undiscounted	56,067	51,648
Provision for claims occurring in the current year	24,803	26,605
Provision for Facility Association claims occurring in the current year	685	860
Net unpaid claims, end of year - undiscounted	81,555	79,113
PFAD and discount, end of year	6,014	6,332
Net unpaid claims, end of year - discounted	$ 87,569	$ 85,445

The net provision for unpaid claims of $87,569,000 (2012 - $85,445,000) consists of the gross provision for unpaid claims of $122,939,000 (2012 - $120,549,000) less unpaid claims recoverable from reinsurers of $35,370,000 (2012 - $35,104,000).

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Corporation's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Corporation's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Corporation determines the discount rate based upon the expected return of the bond investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 2.0% (2012 - 1.8%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

Net unpaid claims

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2013	2012	2013	2012	2013	2012
Provision for reported claims, undiscounted	$ 71,058	$ 71,468	$ 24,079	$ 23,202	$ 46,979	$ 48,266
Provision for claims incurred but not reported	43,703	40,515	9,127	9,668	34,576	30,847
PFAD	14,687	14,076	3,816	3,684	10,871	10,392
Effects of discounting	(6,509)	(5,510)	(1,652)	(1,450)	(4,857)	(4,060)
	$ 122,939	$ 120,549	$ 35,370	$ 35,104	$ 87,569	$ 85,445

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the life insurers default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at December 31, 2013, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurers from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $934,000 (2012 - $1,049,000). The net risk to the Corporation is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Corporation considers the possibility of default to be remote.

8. DEFERRED POLICY ACQUISITION COSTS

	(thousands of $)	
	2013	2012
Deferred policy acquisition costs, at January 1	$ 5,767	$ 4,958
Decrease to premium deficiency	63	1,344
Acquisition costs deferred during the year	10,328	10,801
Amortization of deferred acquisition costs	(10,378)	(11,336)
Deferred policy acquisition costs, at December 31	$ 5,780	$ 5,767

9. UNEARNED PREMIUMS

	(thousands of $)					
	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2013	2012	2013	2012	2013	2012
Unearned premiums, at January 1	$ 31,528	$ 34,589	$ 1,134	$ 1,030	$ 30,394	$ 33,559
Premiums written	57,449	62,075	6,526	6,360	50,923	55,715
Premiums earned	(59,447)	(65,136)	(6,568)	(6,256)	(52,879)	(58,880)
Change in net unearned premiums	(1,998)	(3,061)	(42)	104	(1,956)	(3,165)
Unearned premiums, at December 31	$ 29,530	$ 31,528	$ 1,092	$ 1,134	$ 28,438	$ 30,394

10. SHARE CAPITAL

Authorized:

Unlimited number of common shares with no par value.

	(thousands of $)	
	2013	2012
Issued and fully paid:		
10,000 common shares	$ 1,000	$ 1,000

11. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2013	2012
Net unrealized gain on change in market value of investments	$ 3,616	$ 1,187
Interest	2,144	2,217
Premium financing	1,887	2,089
Pooled fund distributions	1,335	525
Net realized gain on sale of investments	1,046	431
Total investment earnings	10,028	6,449
Investment expenses	(292)	(247)
Net investment earnings	$ 9,736	$ 6,202

Details of the net unrealized gain on change in market value of investments is as follows:

	(thousands of $)	
	2013	2012
Bonds and debentures	$ (673)	$ (520)
Pooled funds:		
Canadian equity	1,663	459
Non-North American equity	1,646	675
United States equity	1,353	573
Mortgage	(373)	-
	$ 3,616	$ 1,187

12. INCOME TAXES

The Corporation's provision (recovery) for income taxes is as follows:

	(thousands of $)	
	2013	2012
Current	$ 2,939	$ 3,773
Deferred	1,536	(621)
Income tax expense	$ 4,475	$ 3,152

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes.

The reasons for the differences are as follows:

	(thousands of $) 2013	2012
Income before income taxes	$ 17,205	$ 12,406
Combined federal and provincial tax rate	26.50%	26.50%
Computed tax expense based on combined rate	$ 4,559	$ 3,288
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(26)	(71)
Changes in enacted tax rates	-	(16)
Ontario small business deduction	(35)	(35)
Non-deductible expenses for tax purposes	8	15
Other	(31)	(29)
Total income tax expense	$ 4,475	$ 3,152

All income taxes payable and/or receivable are due within one year.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

Deferred tax asset

	(thousands of $) Provision for unpaid claims	Other	Total
At January 1, 2012	$ 2,570	$ 6	$ 2,576
Credit (charge) reflected in income tax expense	601	(1)	600
At December 31, 2012	3,171	5	3,176
Charge reflected in income tax expense	(1,562)	(5)	(1,567)
At December 31, 2013	$ 1,609	$ -	$ 1,609

Deferred tax liability

	(thousands of $) Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2012	$ 436	$ 126	$ 562
Charge (credit) reflected in income tax expense	29	(50)	(21)
At December 31, 2012	465	76	541
Charge (credit) reflected in income tax expense	3	(34)	(31)
At December 31, 2013	$ 468	$ 42	$ 510

The Corporation expects that the deferred tax asset will be realized in the normal course of operations.

13. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also result in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as summer storms. The Corporation attempts to mitigate risk by offering different lines of insurance products.

The concentration of insurance risk by line of business is summarized below by reference to gross premiums written:

	(thousands of $)	
	2013	2012
Automobile	$ 44,160	$ 48,217
Personal property	6,695	7,892
Commercial property	3,925	3,398
Liability	2,669	2,568
Total	$ 57,449	$ 62,075

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	2013	2012	2013	2012	2013	2012
Automobile	$ 95,625	$ 95,456	$ 28,045	$ 30,518	$ 67,580	$ 64,938
Personal property	7,127	4,144	3,610	601	3,517	3,543
Commercial property	2,075	2,233	542	506	1,533	1,727
Liability	7,658	7,945	1,009	1,245	6,649	6,700
Facility Association (note 18)	2,276	2,205	-	-	2,276	2,205
PFAD and discounting	8,178	8,566	2,164	2,234	6,014	6,332
Total	$ 122,939	$ 120,549	$ 35,370	$ 35,104	$ 87,569	$ 85,445

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2013	2012
General liability and property	$ 500	$ 500
Automobile - liability	500	500
Catastrophe - automobile physical damage	1,000	1,000
Catastrophe - other	1,000	1,000

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions and premium taxes:

	(thousands of $)	
	2013	2012
Premiums earned	$ 6,568	$ 6,256
Claims incurred	7,288	9,708
Commissions and premium taxes	232	200

Actuarial Risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the seven most recent accident years as estimated at each reporting date.

	(thousands of $)						
Accident Year	2007	2008	2009	2010	2011	2012	2013
Net ultimate loss							
At end of accident year	$ 14,763	$ 15,455	$ 21,124	$ 24,595	$ 38,463	$ 34,290	$ 34,416
One year later	14,219	13,663	19,916	24,658	34,527	30,383	
Two years later	14,278	14,146	20,526	25,193	32,149		
Three years later	14,326	13,598	19,977	23,763			
Four years later	14,006	13,743	20,555				
Five years later	14,602	13,793					
Six years later	14,419						
Cumulative loss development	$ (344)	$ (1,662)	$ (569)	$ (832)	$ (6,314)	$ (3,907)	n/a
Cumulative loss development as a % of original ultimate loss	-2.3%	-10.8%	-2.7%	-3.4%	-16.4%	-11.4%	n/a

	(thousands of $)							
Accident Year	2007	2008	2009	2010	2011	2012	2013	Total
Current estimate of net ultimate loss	14,419	13,793	20,555	23,763	32,149	30,383	34,416	169,478
Cumulative paid	(12,297)	(11,328)	(16,004)	(15,849)	(18,935)	(13,825)	(10,948)	(99,186)
Net provision for unpaid claims for the seven most recent accident years	$ 2,122	$ 2,465	$ 4,551	$ 7,914	$ 13,214	$ 16,558	$ 23,468	$ 70,292

Net undiscounted claims outstanding for accident years 2006 and prior	3,281
Loss adjusting expense reserve	4,384
Provision for adverse deviation and discounting	6,014
Facility Association	2,276
Retained risk sharing pool	1,285
Health levies	(49)
Gross subrogation recoveries	86
Net provision for unpaid claims	$ 87,569

The Corporation's estimated sensitivity of its provision for unpaid claims and net income to changes in best estimate assumptions in the insurance contract liabilities is as follows:

(thousands of $)		Change to Net Provision for Unpaid Claims		Change to Net Income	
Assumption	Sensitivity	2013	2012	2013	2012
Discount rate	+100 bps	$ (2,431)	$ (2,365)	$ (429)	$ 189
Discount rate	- 100 bps	2,431	2,365	429	(189)
Net loss ratio	+ 10%	5,859	6,582	(5,859)	(6,582)
Misestimate	1% deficiency	815	790	(815)	(790)

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial Risk

The nature of the Corporation's operations result in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources:accounts receivable (from its customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2013	2012
Cash and cash equivalents	$ 6,715	$ 1,953
Accounts receivable	26,803	29,576
Fixed income investments[1]	111,483	114,763
Unpaid claims recoverable from reinsurers	35,370	35,104

[1] Includes short-term investments, bonds and debentures, and mortgage pooled fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $6,345,000 and cash on hand, net of outstanding cheques of $370,000 (2012 - money market investments of $1,308,000 and cash on hand, net of outstanding cheques of $645,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from the Facility Association (note 18) and from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2013	2012
Current	$ 26,743	$ 29,573
30 - 59 days	24	22
60 - 90 days	33	19
Greater than 90 days	334	469
Subtotal	27,134	30,083
Allowance for doubtful accounts	(331)	(507)
Total	$ 26,803	$ 29,576

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	2013	2012
Allowance for doubtful accounts, at January 1	$ 507	$ 476
Accounts written off	(257)	(211)
Current period provision	81	242
Allowance for doubtful accounts, at December 31	$ 331	$ 507

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically all required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M.Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	(thousands of $)			
	2013		2012	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 27,823	33.1%	$ 42,749	45.8%
AA	26,486	31.5%	27,898	29.9%
A	21,317	25.4%	18,241	19.5%
BBB	8,452	10.0%	4,429	4.8%
Total	$ 84,078	100.0%	$ 93,317	100.0%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2013	2012	2013	2012
Investment earnings	$ (2,860)	$ (2,176)	$ 2,860	$ 2,176
Claims incurred	(2,431)	(2,365)	2,431	2,365
Net income (loss)	(429)	189	429	(189)

Foreign exchange

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to the U.S. equity and non-North American equity markets is limited to a maximum of 9% and 7%, respectively, of the market value of the total investment portfolio. At December 31, 2013, the Corporation's exposure to U.S. equities was 6.7% (2012 - 4.4%) and its exposure to non-North American equities was 5.6% (2012 - 4.4%).

At December 31, 2013, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $925,000 (2012 - $600,000) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $762,000 (2012 - $604,000) decrease/increase in net income and retained earnings. As the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 18.8% (2012 - 16.4%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's investments. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)			
Asset Class	2013		2012	
Canadian equities	$ +/-	2,518	$ +/-	3,638
U.S. equities	+/-	2,590	+/-	1,452
Non-North American equities	+/-	2,272	+/-	1,970

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

(thousands of $)	2013					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 370	$ 6,345	$ -	$ -	$ -	$ -
Accounts receivable	-	15,492	11,311	-	-	-
Investments	37,533	16,703	4,462	13,627	64,958	-
Unpaid claims recoverable from reinsurers	-	6,133	4,487	6,922	11,694	3,970
	$ 37,903	$ 44,673	$ 20,260	$ 20,549	$ 76,652	$ 3,970
Financial liabilities						
Accounts payable and accrued liabilities	$ 3,759	$ 1,151	$ -	$ -	$ -	$ -
Amounts due to reinsurers	-	792	-	-	-	-
Provision for unpaid claims	-	16,899	13,286	22,091	44,278	18,207
	3,759	18,842	13,286	22,091	44,278	18,207
Finance lease commitments	-	69	138	277	858	-
	$ 3,759	$ 18,911	$ 13,424	$ 22,368	$ 45,136	$ 18,207

(thousands of $)	2012					
	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets						
Cash and cash equivalents	$ 645	$ 1,308	$ -	$ -	$ -	$ -
Accounts receivable	-	18,249	11,327	-	-	-
Investments	22,437	28,527	826	9,632	72,080	3,698
Unpaid claims recoverable from reinsurers	-	5,846	4,448	6,765	11,597	4,214
	$ 23,082	$ 53,930	$ 16,601	$ 16,397	$ 83,677	$ 7,912
Financial liabilities						
Accounts payable and accrued liabilities	$ 3,883	$ 1,044	$ 1,532	$ -	$ -	$ -
Amounts due to reinsurers	-	1,141	-	-	-	-
Provision for unpaid claims	-	16,141	12,955	21,873	43,212	17,802
	3,883	18,326	14,487	21,873	43,212	17,802
Finance lease commitments	-	125	125	-	-	-
	$ 3,883	$ 18,451	$ 14,612	$ 21,873	$ 43,212	$ 17,802

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $2,164,000 (2012 - $2,234,000) (note 7). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $8,178,000 (2012 - $8,566,000) (note 7).

14. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections

in the form of equity advances from its parent, SGI CANADA Insurance Services Ltd. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer, and as such, is subject to rate regulation related to its automobile premiums. FSCO requires insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. There have been no changes to the Corporation's capital management processes and measures since the prior year-end. The Corporation maintains an MCT greater than 150%.

15. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2013	2012
Accounts receivable	$ 2,773	$ 2,478
Reinsurers' share of unearned premiums	42	(104)
Unpaid claims recoverable from reinsurers	(266)	(1,897)
Deferred policy acquisition costs	(13)	(809)
Accounts payable and accrued liabilities	(1,549)	1
Amounts due to reinsurers	(349)	(965)
Unearned reinsurance commissions	(6)	(63)
Unearned premiums	(1,998)	(3,061)
Provision for unpaid claims	2,390	14,048
	$ 1,024	$ 9,628

16. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries and benefits expenses. It allocates expenses incurred to the various operating functions, and has therefore included the various employee salaries and benefits expenses in different line items on the Statement of Operations, including claims incurred and administrative expenses.

The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of $)	
	2013	2012
Salaries	$ 2,018	$ 2,460
Other benefits	411	400
Total salaries and benefits	$ 2,429	$ 2,860

17. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). All transactions are settled at prevailing market prices under normal trade terms. The Corporation has elected to take a partial exemption under IAS 24 *Related Party Disclosures* which allows government related entities to limit the extent of disclosures about related party transactions with government or other government related entities.

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 13). Administrative and loss adjusting expenses incurred by SGI CANADA and charged to the Corporation were $1,846,000 (2012 - $2,054,000) and accounts receivable are $211,000 (2012 - $2,259,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by $4,284,000 (2012 - $3,929,000) and decreased claims incurred by $8,167,000 (2012 - $4,501,000).

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities, and include executive employees of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of $)	
	2013	2012
Salaries and other short-term employee benefits	$ 318	$ 287
Post-employment benefits	17	18
	$ 335	$ 305

Other related party transactions are described separately in the notes to the financial statements.

18. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2013	2012
Gross premiums written	$ 730	$ 1,093
Net premiums earned	$ 769	$ 997
Claims incurred	656	1,183
Commissions	(56)	92
Premium taxes	23	30
Administrative expenses	190	297
Total claims and expenses	813	1,602
Underwriting loss	(44)	(605)
Investment earnings	83	51
Net Income (loss)	$ 39	$ (554)
Facility Association receivable	$ 1,582	$ 1,553
Unearned premiums	363	402
Facility Association payable	1,520	1,520
Provision for unpaid claims	2,276	2,205

19. CONTINGENCIES

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

Coachman
INSURANCE COMPANY